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The Hanna Mining Company

Annual Report 1974

*COVER: Early morning sunlight streams
through framework of new ore storage building
at Minnesota's National Steel pellet project.*

THE HANNA MINING COMPANY

100 Erieview Plaza, Cleveland, Ohio 44114

Directors

Robert F. Anderson
Chairman and Chief Executive Officer,
Iron Ore Company of Canada

Stephen D. Bechtel, Jr.
Chairman,
The Bechtel group of companies

George F. Bennett
President, State Street Investment Corporation

Warren Bicknell, Jr.
Retired

J. W. Buford
Senior Vice President — International Operations
The Hanna Mining Company

Gilbert W. Humphrey
Chairman, The Hanna Mining Company

R. L. Ireland, III
Partner, Brown Brothers Harriman & Company

George H. Love
Honorary Chairman,
Consolidation Coal Company

Walter A. Marting
Chairman, Executive Policy Committee,
The Hanna Mining Company

William H. Moore
Director and Retired Chairman,
Bankers Trust Company

Nathan W. Pearson
Financial Advisor,
Paul Mellon family interests

James N. Purse
President and Chief Executive Officer,
The Hanna Mining Company

George A. Stinson
Chairman and Chief Executive Officer,
National Steel Corporation

George W. Wyckoff
Investment Management

Officers

Gilbert W. Humphrey
Chairman of the Board

James N. Purse
President and Chief Executive Officer

J. W. Buford
Senior Vice President,
International Operations

F. H. Lee
Senior Vice President, Operations

Walter P. Weber
Senior Vice President,
Properties and Government Affairs

B. M. Andreas
Vice President,
Administration, Mining Properties

H. F. Andrews
Vice President, Marine Services

J. E. Courtney
Vice President,
International Operations

Frederick Heller
Vice President, Sales

J. L. Lake
Vice President, Research and Development

C. E. Nickels, Jr.
Vice President,
Finance and Administration

Lawrence W. Spang
Vice President, Corporate and Legal Affairs

Russell E. Beal
Treasurer

L. H. Carlson
Comptroller

J. S. Pyke, Jr.
Secretary

Executive Policy Committee

Walter A. Marting, Chairman
Robert F. Anderson
J. W. Buford
Gilbert W. Humphrey
James N. Purse

Executive Committee

Gilbert W. Humphrey
George H. Love
Walter A. Marting

Audit Committee

George F. Bennett
Warren Bicknell, Jr.
Nathan W. Pearson

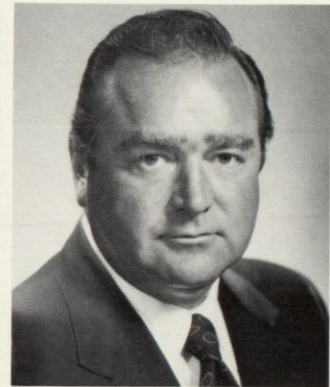
Financial Highlights

	For the Year	
	1974	1973
Net Sales and Operating Revenues	\$272,226,952	\$204,789,541
Depreciation and Depletion	9,455,632	9,814,598
Income Taxes of Consolidated Companies . .	16,262,237	7,284,940
Income of Consolidated Companies	30,258,670	15,084,761
Income (loss) of Companies Carried at Equity:		
Iron Ore Company of Canada	(11,824,000)	2,771,000
Other	2,067,875	4,965,450
Net Income	20,502,545	22,821,211
Net Income per Share	\$2.32	\$2.58
Dividends per Share	\$1.35	\$1.35
At the Year-End		
Working Capital	\$ 47,482,948	\$ 49,392,124
Stockholders' Equity	283,162,614	274,586,740
Book Value per Share	\$32.05	\$31.08

To the Stockholders of The Hanna Mining Company



Mr. Humphrey



Mr. Purse

For Hanna's domestic operations 1974 was a good year. Demand for iron ore and nickel was strong throughout the year. Our mines and plants operated at capacity rates, showing improved performance and increased earnings. Net income from these sources — identified in the Hanna income account as consolidated companies — was \$30.3 million, as compared to \$15.1 million in 1973.

In May we acquired an electric furnace plant that produces ferrosilicon and silicon metal and our entry into this business proved successful.

The National Steel pellet project expansion in Minnesota proceeded on schedule.

Hanna-managed properties in the United States and Canada produced 32 million tons of iron ore pellets, concentrates, and natural ores, about the same as in 1973. Of this production, 9.9 million tons were for the Hanna Mining account.

The improvement in domestic operations, however, was more than offset by the losses caused by the difficulties at Iron Ore Company of Canada and the start-up of the MBR Aguas Claras iron ore project in Brazil. Hanna's equity portion of these losses caused a substantial reduction in the company's net income.

Progress was made at Iron Ore Company of Canada, its losses were reduced as the year went along, and many of its difficulties were resolved. The company lost \$48.3 million for the year — \$33.3 million in the first half and \$15 million in the last six months, of which \$5.8 million was incurred in the fourth quarter.

IOC's loss may be expected to increase in the first quarter of 1975 over the fourth quarter of 1974 because of normally lower sales and production and higher operating costs during winter months. IOC should achieve improved operating results later in the year, however, as the effects of higher production rates are realized.

Production at annual design capacities was not attained in 1974 at IOC and the effects of operating problems were magnified by soaring costs which could not be offset by price increases.

In order to strengthen IOC's financial base, the ore-consuming stockholders subscribed to an issue of \$50 million of common stock. Hanna's share of this issue was \$15.2 million and its ownership in IOC increased to 27.14 percent.

IOC currently is engaged in negotiations for new labor agreements. Its present contracts expire at the end of February.

At the MBR Aguas Claras project in Brazil, the mine near Belo Horizonte and ship loading terminal near Rio de Janeiro performed well during their initial year

of operation, but the tonnages that were moved by rail from the mine to the terminal fell short of targets. Tonnages rose as the year went along and are expected to increase in 1975 as improvements to the rail line are completed and additional rolling stock is delivered. MBR showed a profit in the fourth quarter and 1975 is expected to be a profitable year for the company.

Also in Brazil, the expansion of the Alcominas aluminum facility moved ahead on schedule, as did construction of the Exmibal nickel project in Guatemala.

Costs escalated rapidly throughout the year, both in the United States and Canada, including the costs of labor, materials, supplies, and energy, as well as interest rates. Enormous cost pressures had built up during the period of price controls in the United States. With the return to a free market economy, following the expiration of controls on May 1, iron ore prices began returning to more realistic levels.

In all of Hanna's operations we face continuation of increasing costs. Improvements in operating efficiency are being made in many areas, but at best these can only partially offset cost increases of the magnitude experienced over the past several years.

No Hanna-operated property in North America was forced to curtail production because of a shortage of energy. The Groveland and Pilot Knob iron ore pellet projects are equipped to use alternate sources of fuel and studies aimed at the use of coal and oil at the Minnesota projects are continuing. At the nickel smelter in Oregon, the availability of electric power improved, but the possibility of future shortages remains and operating alternatives are being devised. Conservation measures are continuing at all locations.

After many years of outstanding service to Hanna and to the mining industry, W. A. Marting retired in February, upon reaching mandatory retirement age. An attorney, he joined the Hanna organization in 1953 and was elected president and chief executive officer of Hanna Mining in 1960, a position he held until a year ago when he was elected chairman of the Executive Policy Committee. During this period he also was chairman of Iron Ore Company of Canada and president of St. John d'el Rey Mining Company. Over the years he served as chairman of the American Mining Congress for three terms, chairman of the American Iron Ore Association, and a director of American Iron and Steel Institute. We consider ourselves fortunate to have the benefit of his continuing advice and counsel as a director of the company.

Of Hanna's assets, the greatest single strength is the organization of men and women who have contributed so importantly to the company's achievements. On behalf of the directors, we express appreciation for their dedicated performance during 1974.

G. W. Humphrey
Chairman

J. N. Purse
President

Cleveland, Ohio, February 28, 1975

Nerve center of an iron ore pellet plant is the operations room where equipment is monitored and controlled.



Iron Ore/Brazil

In its start-up year the MBR Aguas Claras project shipped 6 million metric tons of high grade natural iron ore through the ship loading terminal in Sepetiba Bay. Volume fell short of targeted tonnages because of difficulties in moving the ore from the mine to the terminal via the government owned railway.

Shipments began late in 1973 and tonnages increased in the early months of 1974. Then a bridge failure on the main line of the railroad caused a four-week interruption in June. Rail transport resumed in July with reduced tonnages per car while additional bridges were replaced and strengthened. This program was completed in November and since then the rail cars have been loaded to near capacity.

As a result of these higher tonnages, MBR reported a profit for the last quarter of the year. Improvements to the rail line are continuing and additional rolling stock is scheduled for delivery in 1975.

The Aguas Claras mine is located near Belo Horizonte, some 250 air miles north of Rio, but 400 miles by rail because of the mountainous terrain. The terminal, located south and west of Rio, has 80 feet of water at dockside and can handle ocean-going ore carriers of 250,000 tons capacity.

The Aguas Claras ore, which averages about 68 percent iron, is carefully sized and has been well received by steelmakers. Tonnages were shipped in 1974 to Japan, Great Britain, Argentina, the United States, Canada, Germany, Italy, Holland, and Poland, and a portion was consumed in Brazil.

The Aguas Claras project is owned and operated by Mineracoes Brasileiras Reunidas S. A. — MBR, 49 percent

of which is owned by St. John d'el Rey Mining Company. Hanna in turn owns two-thirds of St. John and provides technical assistance to MBR. Fifty-one percent of MBR is owned by a Brazilian company, Empreendimentos Brasileiros de Mineracao S. A. — EBM.

MBR also owns other iron ore properties, two of which have substantial mining operations in Minas Gerais. These shipped during the year a total of 2.4 million metric tons of ore, 1.3 million tons of which were consumed by Brazilian steel mills and the balance exported through the Port of Rio de Janeiro.

The heavy start-up expenses at Aguas Claras earlier in the year, which can be anticipated at the outset of any large mining operation, combined with the reduced rail shipments, resulted in an MBR loss for 1974, and consequently a St. John d'el Rey loss for the 13 months ending December 31, 1974. Hanna's equity portion of that St. John loss was \$2,666,000, as compared to equity earnings of \$378,000 for the 11 months ending November 30, 1973, which was prior to the Aguas Claras start-up. The St. John annual report for the fiscal year ending March 31, 1975, will be available to Hanna stockholders on request.

*High grade natural
iron ore is stockpiled
prior to shipment from
MBR terminal near
Rio de Janeiro.*







Iron Ore/United States

Shipments from the four Hanna-operated pellet projects in the United States totaled 7.7 million tons, some 500,000 tons less than in 1973. Much of this drop is a reflection of the two-week strike in August that was terminated with a new three-year contract. Included was an agreement similar to that existing in the basic steel industry insuring no strikes over contract issues in 1977.

Expansion of the National Steel pellet project on the Mesabi Range near Hibbing began in the spring and is proceeding on schedule, with completion targeted for early 1977. This will raise the project's production capability from 2.6 million tons annually to 5.8 million tons. In 1974 the project shipped 2.5 million tons.

The Butler project, also on the Mesabi Range, shipped 2.5 million tons. Plans are going forward to round out the Butler concentrating section to bring it in balance with the project's pelletizing capability of 2.8 million tons annually.

Iron Ore/Canada

Iron Ore Company of Canada sold 23.1 million tons of iron ore concentrates, pellets, and natural ores in 1974, as compared to 21.6 millions tons the year before.

Efforts aimed at resolving IOC's difficulties continued on many fronts throughout the year. Underlying the company's operating problems are high employee turnover rates and shortages of skilled personnel, problems that are common across Canada.

In 1974 IOC expanded its training program to develop craftsmen from within the organization, put new and improved housing units in place at Labrador City, hired significant numbers of women — mainly employee wives — for plant operating jobs, and accelerated its recruiting program. IOC's management organization was materially strengthened during the year.

Production at the Carol project in Labrador was well below original expectations. Earlier, while the concentrating section was being expanded, maintenance fell behind in the existing plant and consequently a major rebuilding and maintenance program was initiated, continuing in the concentrator during much of the year. In the pelletizing section the rebuilding program was com-

pleted in May, at which point output rose to more satisfactory levels, where it was maintained for the balance of the year.

The Groveland property in Michigan shipped 2 million tons, the same as in recent years.

At Pilot Knob, in Missouri, production of self-fluxing pellets began on a reduced basis while additional equipment was being installed. As a result of this, along with restricted operations while a new production shaft was being completed, output dropped to 686,000 tons, about 30 percent less than in 1973. Production at Pilot Knob should show improvement in 1975.

Natural ore sales showed a moderate increase, with the additional tonnage coming from stockpile. In 1975 the Whitney Mine at Hibbing will come into full production, replacing the Pierce Mine.

At the new plant at Sept-Iles, which concentrates and pelletizes Knob Lake ore from the Schefferville area, production for the year totaled 2 million tons. Process problems which had emerged earlier were solved, but mechanical breakdowns of the new equipment plagued operations throughout 1974 and sustained operation was hampered by shortages of replacement parts. As mechanical problems were solved and work crews became more experienced, production improved.

Because of the nature of the problems at IOC, many are not the kind that lend themselves to quick solutions. All practicable means are being applied to improve operations and steady progress is anticipated. Substantial increases in production are targeted for 1975.

Truck with payload capability of 100 tons is typical of large, efficient equipment used in mining today.

Nickel, Silicon/United States

Production of nickel at the mine and smelter in Oregon was 26,154,000 pounds in 1974, up slightly from the year before. The program to improve air quality, which cost \$5 million over a four-year period, is now complete.

Precipitation in the Bonneville Power Administration watershed was plentiful in 1974 and the reservoirs serving its hydroelectric system again have adequate water levels. This is the primary source of power for the smelter.

In part to provide an alternate source of the ferrosilicon required in the nickel process, should the Hanna smelter be unable to produce sufficient quantities because of power curtailment, Hanna in May acquired a plant in Rock Island, Washington, near Wenatchee. This facility produces both ferrosilicon and silicon metal, the latter used in the production of aluminum, steel alloys, silicones, and semi-conductors.

Demand for silicon metal was strong throughout 1974 and the major portion of the plant's output has been sold under long term contracts. An air quality control system is scheduled for completion in mid-1975.

Nickel/Guatemala

Construction was well under way by year-end at the Exmibal nickel project near Lake Izabal. This project, which will have an annual production capability of about 28 million pounds of nickel in matte, is scheduled to begin production in 1977.

Exmibal is owned 80 percent by International Nickel Company of Canada, Limited, and 20 percent by Hanna. Provision has been made for the government of Guatemala, the International Finance Corporation, and the Central American Bank for Economic Integration to acquire up to 36 percent of Exmibal, with Inco and Hanna holding the balance, in which case Hanna's equity portion would be 12.8 percent of the company.

Nickel/Colombia

New understandings were reached with the government of Colombia, resulting in the issuance of regulations improving the foreign exchange aspects of the prospective Cerro Matoso nickel project.

Commercial scale development of the concession would be conditioned on the successful completion of pilot plant testing and feasibility studies, along with satisfactory marketing and financing arrangements.

A project would include mining, ore preparation, smelting, refining, and auxiliary facilities capable of producing initially about 50 million pounds of nickel annually in the form of ferronickel.

The Cerro Matoso concession is one-third held by a subsidiary of a Colombian government development corporation, and the balance by a private company in which Hanna has a majority interest.

Insulating material is shoveled on molten silicon metal being tapped from furnace in Wenatchee plant.

Aluminum/Brazil

The Alcominas aluminum smelter, located near Pocos de Caldas in the State of Minas Gerais, produced 29,000 metric tons of high purity aluminum and sold an additional 8,000 tons of alumina during 1974. The expansion program to double production capacity was well under way by year-end and by mid-1976 Alcominas will be capable of producing 60,000 metric tons annually. Demand for aluminum continues strong in the growing Brazilian market and capacity operations are expected again in 1975.

Hanna owns 30 percent of Alcominas and the balance is owned by Aluminum Company of America and Brazilian interests. The project is completely integrated from the bauxite mine through refining and smelting. Hanna's equity portion of Alcominas earnings in 1974 was \$302,000, before adjustment for the prior year, as compared to \$688,000 in 1973. Last year's Alcominas profits were suppressed in part by financial expenses relating to the expansion program and in part because price relief granted by the government in the first half of the year did not keep pace with labor and supply cost increases.

Marine Services

Hanna-operated vessels on the Great Lakes and in the St. Lawrence Seaway transported 6.4 million tons of iron ore in 1974, as compared to 7.4 million tons the year before, a decline that reflects strikes of domestic iron ore miners and Canadian maritime unions. Grain shipments, also affected by the Canadian strike, totaled 35.9 million bushels, as compared to 44.5 million bushels in 1973.

Three of the Hanna-operated Great Lakes vessels remained in operation until late in January to help meet customers' demands for pellets.

The coal loading docks managed by Hanna on Lake Erie handled 8.3 million tons in 1974, as compared to 9.1 million tons the year before.

Petrochemicals/Brazil

All six of the petrochemical companies in the Unipar group were profitable and two paid substantial dividends. Hanna has a 15 percent ownership in Unipar, which is a Brazilian holding company with varying interests in six corporations which produce a standard range of petrochemicals, along with chlorine and caustic soda. In 1974 plant construction was begun by a seventh operating company, which will produce carbon black from by-products of other companies in the group.

Iron Ore/Australia

The eight-year contract for shipping ore to Japan from the Koolanooka property in Western Australia was completed in 1974 and operations were terminated. The property was operated by Western Mining Company, the 50 percent owner, with Homestake Mining and Hanna each holding a 25 percent interest.

Hanna-managed ore unloading docks at Cleveland and Philadelphia handled 10.4 million tons during the year, about the same as in 1973.

The Ocean Marine Division, which provides worldwide ship chartering services, increased its volume and earnings.

In January 1975, Hanna sold for cash its minority interest in the ore and coal unloading dock in Rotterdam, Holland.

Ore train snakes its way north after delivering iron ore to ship loading terminal at Sept Iles, Quebec.



Exploration/Research

At the Hanna Research Center research was initiated on the treatment of nickel laterites using pyrometallurgical and hydrometallurgical processes. These studies will be continued, as will the study of the treatment of Cerro Matoso ore using a rotary kiln-electric furnace process.

Expanded studies were carried out on the recovery of iron minerals from oxidized taconite by the use of flotation and high intensity magnetic separation. Technical feasibility is encouraging and small scale pilot work will be continued in 1975.

In 1974 Hanna continued its participation in base metal exploration in the western United States and in Australia, examined nickel laterite properties in West Africa, and prospected for base metals in Ontario and the Maritime Provinces.

Geological work continued on two gold properties in the western United States and a gold-diamond placer

property in Brazil. Metallurgical studies are being initiated in 1975 to examine new methods of extracting gold from some of these ores.

Revenues from the Louisiana oil and gas properties increased substantially in 1974, generating a modest net cash flow for all Hanna petroleum activities for the year. During the year, we participated in drilling several wells in the North Sea, resulting in a discovery, which has been confirmed with a second well. Additional wells are being drilled in 1975. Hanna participates in these activities through the exploration program of Hamilton Brothers Oil Company.

Management

The company suffered a grievous loss in January 1975 with the death of John R. Greenlee, vice president, taxes. He was a nationally-recognized authority on taxation and his integrity and judgment were universally respected. A certified public accountant, Mr. Greenlee joined Hanna in 1942, became tax manager in 1955, director of taxes in 1965, and was elected a vice president in 1974.

In February Floyd H. Lee was elected senior vice president, operations. Mr. Lee, formerly vice president in charge of the nickel division, joined the company in 1949 and held various management positions in iron ore operations before becoming general manager of operations in 1966.

At the same time Carl E. Nickels, Jr., was elected vice president, finance and administration. Mr. Nickels joined

Hanna in 1953, later serving as a staff attorney and assistant secretary. He continues as vice president and secretary of Iron Ore Company of Canada.

In March James E. Courtney joined the company as vice president, international operations. As an attorney in private practice, Mr. Courtney had represented Hanna for more than a decade and had participated in much of the work on the company's overseas projects during that period.

Statements of Consolidated Income

The Hanna Mining Company and Consolidated Subsidiaries

	Year Ended December 31	
	1974	1973 (Restated)
INCOME		
Net sales and operating revenues	\$272,226,952	\$204,789,541
Dividends:		
National Steel Corporation	3,300,000	2,750,000
Other	109,154	95,185
Interest	2,690,574	3,274,464
Sundry	1,173,021	646,554
TOTAL	279,499,701	211,555,744
COSTS AND EXPENSES		
Cost of goods sold and operating expenses	210,685,967	168,636,968
Selling, general, and administrative expenses	8,695,196	7,929,864
Depreciation and depletion	9,455,632	9,814,598
Interest on long-term debt	4,141,999	2,804,613
Income taxes	16,262,237	7,284,940
TOTAL	249,241,031	196,470,983
INCOME OF CONSOLIDATED COMPANIES	30,258,670	15,084,761
INCOME (LOSS) OF COMPANIES CARRIED AT EQUITY		
Iron Ore Company of Canada	(11,824,000)	2,771,000
Other	2,067,875	4,965,450
TOTAL	(9,756,125)	7,736,450
NET INCOME	\$ 20,502,545	\$ 22,821,211
NET INCOME PER SHARE	\$2.32	\$2.58

Statements of Consolidated Stockholders' Equity

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance January 1, 1973	\$8,871,050	\$21,337,531	\$239,687,584	\$(552,963)	\$269,343,202
Adjustment of research and development costs of an associated foreign company			(5,651,000)		(5,651,000)
Balance January 1, 1973, as restated	8,871,050	21,337,531	234,036,584	(552,963)	263,692,202
Net income for 1973			22,821,211		22,821,211
Cash dividends — \$1.35 a share			(11,926,673)		(11,926,673)
Balance December 31, 1973	8,871,050	21,337,531	244,931,122	(552,963)	274,586,740
Net income for 1974			20,502,545		20,502,545
Cash dividends — \$1.35 a share			(11,926,671)		(11,926,671)
Balance December 31, 1974	\$8,871,050	\$21,337,531	\$253,506,996	\$(552,963)	\$283,162,614

See notes to financial statements.

Consolidated Balance Sheets

The Hanna Mining Company and Consolidated Subsidiaries

	December 31	
	1974	1973 (Restated)
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,611,139	\$ 2,193,098
Short-term securities	25,224,469	29,011,441
Receivables:		
Trade	36,805,416	22,898,931
Other — principally from associated companies	9,102,989	5,870,490
	<u>45,908,405</u>	<u>28,769,421</u>
Inventories:		
Iron ore and other products	8,656,757	13,822,499
Supplies	13,550,521	7,104,368
	<u>22,207,278</u>	<u>20,926,867</u>
TOTAL CURRENT ASSETS	<u>96,951,291</u>	<u>80,900,827</u>
PROPERTY, PLANT, AND EQUIPMENT		
Mineral and oil lands and leases	12,389,261	11,028,678
Plants and equipment	108,033,928	100,187,244
Vessels	1,619,093	5,415,919
	<u>122,042,282</u>	<u>116,631,841</u>
Less allowances for depreciation and depletion	68,618,267	64,357,572
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>53,424,015</u>	<u>52,274,269</u>
OTHER ASSETS		
Working assets — Interests in associated companies:		
Iron Ore Company of Canada	89,156,458	86,656,763
Other associated companies	43,666,428	43,823,046
Interests in other companies:		
National Steel Corporation — market price \$36,300,000 (\$33,300,000 in 1973)	63,316,182	63,316,182
Other companies	28,852,240	28,404,839
Sundry assets and deferred charges	21,383,908	5,019,611
TOTAL OTHER ASSETS	<u>246,375,216</u>	<u>227,220,441</u>
	<u>\$396,750,522</u>	<u>\$360,395,537</u>

	December 31	
	1974	1973 (Restated)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade and sundry payables	\$ 23,093,799	\$ 11,462,392
Accrued expenses	11,423,398	11,666,539
Federal income taxes	14,736,146	7,959,772
Current portion of long-term debt	215,000	420,000
TOTAL CURRENT LIABILITIES	49,468,343	31,508,703
LONG-TERM DEBT		
4% Sinking Fund Debentures — payable		
\$2,000,000 annually	32,000,000	34,000,000
Less debentures in treasury	4,088,400	5,476,100
	<u>27,911,600</u>	<u>28,523,900</u>
Swiss bank loans	16,090,623	7,817,020
Other (less current portion)	4,500,970	2,703,030
TOTAL LONG-TERM DEBT	48,503,193	39,043,950
RESERVES		
Deferred income taxes	12,800,200	12,346,600
Other	2,816,172	2,909,544
TOTAL RESERVES	15,616,372	15,256,144
STOCKHOLDERS' EQUITY		
Common Stock, par value \$1 a share:		
Authorized 13,500,000 shares		
Issued 8,871,050 shares	8,871,050	8,871,050
Capital surplus	21,337,531	21,337,531
Retained earnings	253,506,996	244,931,122
Cost of treasury stock (36,500 shares)	(552,963)	(552,963)
TOTAL STOCKHOLDERS' EQUITY	283,162,614	274,586,740
	<u><u>\$396,750,522</u></u>	<u><u>\$360,395,537</u></u>

See notes to financial statements.

Statements of Consolidated Changes in Financial Position

The Hanna Mining Company and Consolidated Subsidiaries

	Year Ended December 31	
	1974	1973
SOURCE OF FUNDS		(Restated)
Net income for the year	\$ 20,502,545	\$ 22,821,211
Depreciation and depletion	9,455,632	9,814,598
Deferred income taxes	453,600	1,081,000
Undistributed losses (income) of companies carried at equity	13,322,065	(5,106,320)
Funds provided from operations	43,733,842	28,610,489
Increase in long-term debt	11,553,603	9,727,990
Decrease in interests in associated and other companies . .	1,291,304	4,762,218
Disposals of property, plant, and equipment	3,251,648	354,548
Other	19,552	1,292,684
	<u>59,849,949</u>	<u>44,747,929</u>
APPLICATION OF FUNDS		
Expenditures for property, plant, and equipment	9,315,144	13,260,668
Expenditures for interests in associated and other companies	22,028,332	13,963,028
Cash dividends	11,926,671	11,926,673
Decrease in long-term debt	2,094,360	2,524,040
Increase in sundry assets and deferred charges	16,301,246	—0—
Decrease in reserves	93,372	361,834
	<u>61,759,125</u>	<u>42,036,243</u>
(Decrease) increase in working capital	(1,909,176)	2,711,686
Working capital beginning of year	49,392,124	46,680,438
Working capital end of year	<u>\$ 47,482,948</u>	<u>\$ 49,392,124</u>
DETAIL OF (DECREASE) INCREASE IN WORKING CAPITAL		
Cash and short-term securities	\$ (2,368,931)	\$ 10,302,791
Receivables	17,138,984	(588,029)
Inventories	1,280,411	(3,724,918)
Trade and sundry payables	(11,631,407)	1,478,356
Accrued expenses	243,141	(1,492,611)
Federal income taxes	(6,776,374)	(3,083,903)
Current portion of long-term debt	205,000	(180,000)
Total (Decrease) Increase	<u>\$ (1,909,176)</u>	<u>\$ 2,711,686</u>

See notes to financial statements.

Notes to Financial Statements

Summary of Accounting Policies

Interests in Associated and Other Companies

The Company's policy is to include all wholly-owned operating subsidiaries in its consolidated financial statements.

Interests in Iron Ore Company of Canada and certain other companies are carried at cost adjusted for equity in earnings and losses since dates of acquisition, less dividends.

Interests in National Steel Corporation and certain other companies are stated at cost with dividends recorded as earnings when received. The underlying net assets exceed the carrying value of the interest in National Steel Corporation. The Company intends to retain its 5.9% interest in the capital stock of National Steel Corporation as a long-term investment.

Short-Term Securities

Short-term securities are stated at cost plus accrued interest, which approximates market value.

Inventories

Inventories are stated at the lower of average cost or market. The Company follows the industry practice of carrying supplies inventory as a current asset, although a portion of such inventory may not be used within one year.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Provisions for depreciation and depletion have been computed principally on the unit-of-production and straight-line methods at rates sufficient to amortize the cost of the assets over their estimated productive lives. Because of the variations in the estimated lives of properties and equipment applicable to various mines and other operations, it is not practicable to state the rates used in computing the amounts for depreciation and depletion.

The general policy of the Company, with respect to property items retired or otherwise disposed of, has been to relieve the property accounts and related allowances of the amounts included therein for such items. Any profit or loss on retirement or disposal of an entire unit has been included in operations. On other items, profit or loss on retirement or disposal has been included in the allowance.

Maintenance, repairs, and minor renewals are charged to operating expenses, whereas betterments are capitalized. Exploration, research, and development costs are charged to operating expenses as incurred.

Income Taxes

Deferred income taxes arise principally from accelerated depreciation claimed for tax purposes and undistributed earnings of associated companies carried at equity. The investment tax credit is recorded as a reduction of the current provisions for federal income taxes.

Discount on Debentures

Discount on purchases of the Company's debentures for treasury prior to December 31, 1972, is included in income as the debentures are retired to meet the annual sinking fund requirement. Discount on debentures purchased after such date is included in income at the time of purchase.

Translation of Currency

The bank loans, which are repayable in Swiss Francs, are translated into U.S. dollars using the exchange rates in effect at the dates the obligations were incurred; for that portion which may be repaid using forward contracts entered into for this purpose, the contracted rates are used.

Interest expense on the bank loans is translated using the rate in effect on the date paid. Gains on forward exchange contracts are recognized when settled; losses are recognized at the balance sheet date.

Equity in earnings of certain associated foreign companies are picked up at appropriate U.S. dollar equivalents.

Trade Transactions

In accordance with industry practice, there are excluded from sales and cost of goods sold amounts applicable to iron ore traded with other producers.

Reclassifications

Certain 1973 items in the financial statements and notes to financial statements have been reclassified to conform to the 1974 classifications.

Accounting Change

In accordance with a recently issued statement of the Financial Accounting Standards Board, the Company in 1974 reduced the carrying value of an associated foreign company to retroactively write off research and development costs that had been capitalized. The retroactive restatement resulted in a decrease in previously reported net income for 1973 of \$743,000, or nine cents per share. Amounts applicable to years prior to 1973 (\$5,651,000) were charged directly to retained earnings.

Notes to Financial Statements (continued)

The Hanna Mining Company and Consolidated Subsidiaries

Interests in Associated and Other Companies

	Percent Owned	Income (Loss)		Carrying Value	
		1974	1973	1974	1973
		(amounts in thousands)			
Working assets—Interests in associated companies:					
Carried at equity:					
St. John d'el Rey Mining Co., Ltd. (Brazil) (a)	66.3	\$(2,666)	\$ 378	\$12,978	\$15,644
Hanna Ore Mining Co.	15.0	253	273	909	694
Alcominas (Brazil)	30.0	182	516	6,999	6,756
Other		1,016	868	3,942	3,791
Carried at cost:					
Butler Taconite Project (b)	37.5	—0—	—0—	8,508	8,708
Pilot Knob Pellet Co. (b)	50.0	—0—	—0—	5,045	3,533
Exmibal (Guatemala)	20.0	—0—	—0—	3,553	1,622
Other		—0—	—0—	1,732	3,075
				<u>\$43,666</u>	<u>\$43,823</u>
Interests in other companies:					
Carried at equity:					
Labrador Mining and Expl. Co., Ltd. (Canada)	22.3	1,934	1,696	\$16,915	\$15,995
Hollinger North Shore Expl. Co., Ltd. (Canada)	40.0	669	613	924	1,128
Other		680	621	143	89
Carried at cost:					
Unipar (Brazil)	15.1	—0—	—0—	5,998	5,998
Other		109	95	4,872	5,195
		<u>\$ 2,177</u>	<u>\$5,060</u>	<u>\$28,852</u>	<u>\$28,405</u>
Included in income as:					
Dividends		\$ 109	\$ 95		
Income (loss) of companies carried at equity		2,068	4,965		
		<u>\$ 2,177</u>	<u>\$5,060</u>		

(a) Following is a summary of financial information for 1974 of St. John d'el Rey Mining Co., Ltd.:

Net current assets	\$ 878,000
Investment in MBR	15,955,000
Other assets	884,000
Net assets	<u>\$17,717,000</u>
Net loss	<u>\$ 4,020,000</u>

St. John owns 49% of MBR, whose iron ore sales amounted to \$77,597,000 for 1974.

(b) The Company, through its ownership interest, is entitled to its proportionate share of the production of these mining companies at cost. The Company's proportionate share of depreciation (1974 — \$2,937,925; 1973 — \$3,399,921) and interest on long-term debt (1974 — \$1,150,322; 1973 — \$1,229,016) has been so classified in the statements of consolidated income and the remaining costs are included in cost of goods sold and operating expenses.

Iron Ore Company of Canada

The Company's 26.37% (increased to 27.14% in 1975) interest in Iron Ore Company of Canada carried on the consolidated balance sheet includes debentures of \$18,757,817. Included in the Company's sundry assets and deferred charges at December 31, 1974, are advances of \$13,663,554 receivable from Iron Ore Company of Canada. Included in accounts payable is \$9,284,137 and \$3,265,765 due to Iron Ore Company of Canada at December 31, 1974, and 1973, respectively. Following is a summary of financial information of Iron Ore Company of Canada:

	1974	1973
Net current assets . . .	\$ 58,583,000	\$ 21,257,000
Investments and other assets	16,410,000	17,646,000
Property, plant and equipment — net . .	690,918,000	708,462,000
	<u>765,911,000</u>	<u>747,365,000</u>
Long-term debt and reserves	(498,501,000)	(481,638,000)
Net assets	<u>\$267,410,000</u>	<u>\$265,727,000</u>
Sales and operating revenues	\$364,121,000	\$281,085,000
Net (loss) income . . .	<u>\$(48,317,000)</u>	<u>\$ 11,324,000</u>

Iron Ore Company of Canada follows a policy of capitalizing interest on funds borrowed to finance major expansion projects. Interest capitalized amounted to \$17,430,000 in 1973. Preoperating costs, aggregating \$15,100,000 in 1973, incurred in connection with the start-up of major plant facilities were also capitalized and are being amortized over five years. The construction and initial break-in period was substantially complete by January 1, 1974; thus, Iron Ore Company of Canada expensed similar items in 1974.

Future minimum rental commitments as of December 31, 1974, for all noncancelable leases of Iron Ore Company of Canada, aggregating approximately \$103,000,000, are payable in varying amounts through 1997.

Reference is made to pages 3 and 6 of this annual report for comments relative to operating problems of Iron Ore Company of Canada.

Undistributed Earnings Included in Retained Earnings

Included in the Company's retained earnings are the undistributed earnings of companies accounted for on the equity method. Such amounts, after providing deferred income taxes, aggregated approximately \$9,500,000 and \$22,900,000 at December 31, 1974 and 1973, respectively.

Income Taxes

The total provision for income taxes payable to federal, foreign, and state governments, including taxes netted against income (loss) of companies carried at equity (\$108,400 in 1974 and \$1,052,200 in 1973), includes deferred income taxes of \$453,600 in 1974 and \$1,081,000 in 1973.

The effective tax rate is less than the 48% corporate tax rate principally because of the effect of percentage depletion, dividend received deduction, credit for foreign taxes paid, and investment tax credit (\$389,900 in 1974 and \$409,600 in 1973).

Long-Term Debt

The indenture, relating to the 4% Sinking Fund Debentures, contains limitations relative to cash dividends and other stock payments. At December 31, 1974, approximately \$139,000,000 of retained earnings was free of such limitations.

The bank loans, which mature on March 31, 1976, are payable to three Swiss banks and bear interest currently at 10%. The loan agreement provides for possible replacement of the notes with long-term Swiss franc bonds, at any time prior to March 31, 1976. Based on the year-end exchange rate and after giving effect to forward contracts purchased, it would require approximately \$19,200,000 to retire the notes at December 31, 1974.

Stock Options

Under a stock option plan approved by the stockholders in 1969, 100,000 shares of common stock were reserved for the granting of options to officers and other key employees. During 1974, options were granted to purchase these shares at the fair market value on the date of grant (\$26.38). Options may not be exercised until one year from date of grant; thereafter they become exercisable at a rate of 25% annually on a cumulative basis. No options are exercisable after June 6, 1984.

Contingent Liabilities and Commitments

Under certain conditions, the Company might be required to make payments on long-term obligations of certain associated mining companies in proportion to the

Notes to Financial Statements (continued)

The Hanna Mining Company and Consolidated Subsidiaries

Company's interest in such companies. At December 31, 1974, the Company was contingently liable under such arrangements in the amount of approximately \$29,000,000.

In relation to the completion of the MBR project in Brazil, the Company may be obligated to advance up to an additional \$12,500,000.

The Company has guaranteed indebtedness of approximately \$1,100,000 at December 31, 1974, incurred by certain key employees to purchase common shares under stock options.

Pensions

The Company and its subsidiaries have various pension plans covering substantially all of their employees. Total pension expense which was \$3,550,000 in 1974 and \$3,064,000 in 1973 includes amortization of prior service cost over appropriate periods. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits for all plans as of the latest actuarial valuation exceeded total book value of the pension fund assets and balance sheet accruals by approximately \$5,800,000. As of December 31, 1974, book value of pension fund assets exceeded market values by approximately \$2,500,000. The unfunded portion of past service costs under the Company's various pension plans based upon

the latest valuations was estimated by consulting actuaries to be approximately \$21,400,000.

The Employee Retirement Income Security Act of 1974 will require certain revisions in the Company's pension plans; at this time the impact of these revisions is not determinable.

Sundry Income

Sundry income includes the following:

	1974	1973
Gain on sale of vessels	\$1,309,109	\$ —0—
Gain on retirement of debt	642,667	584,285
Provision for loss on currency translation	(864,000)	—0—
Other	85,245	62,269
	<u>\$1,173,021</u>	<u>\$646,554</u>

Accountants' Report

Board of Directors The Hanna Mining Company

We have examined the consolidated balance sheets of The Hanna Mining Company and consolidated subsidiaries as of December 31, 1974, and December 31, 1973, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain companies carried at equity. The net equity in combined net income and losses of such companies amounted to 3% and 14% of the consolidated income before income taxes for the years ended December 31, 1974, and 1973, respectively. The statements of such companies were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts in-

cluded for such companies, is based solely on the reports of other auditors.

In our opinion, based upon our examinations and the reports of other auditors, the financial statements referred to above present fairly the consolidated financial position of The Hanna Mining Company and consolidated subsidiaries at December 31, 1974, and December 31, 1973, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for research and development costs by an associated foreign company as described in the accounting change note to the financial statements.

Cleveland, Ohio
February 26, 1975

Ernst & Ernst

Seven Year Financial Comparison

SUMMARY OF OPERATIONS

	1974	1973	1972	1971	1970	1969	1968
	(Amounts In Thousands, Except Per Share Data)						
Net Sales and Operating Revenues . . .	\$272,227	204,790	176,399	197,089	203,442	175,988	153,104
Cost of Goods Sold and Operating Expenses . . .	\$210,686	168,637	144,759	165,969	167,410	141,314	130,262
Depreciation and Depletion . .	\$ 9,456	9,815	7,740	7,149	7,165	7,113	5,943
Interest on Long-Term Debt . .	\$ 4,142	2,805	2,742	2,828	2,979	3,317	3,637
Income Taxes	\$ 16,262	7,285	5,166	4,897	9,296	7,592	146
Income of Consolidated Companies	\$ 30,259	15,085	14,225	14,993	17,460	16,028	12,548
Income (Loss) of Companies Carried at Equity	\$ (9,756)	7,736	3,794	11,380	13,696	5,472	9,945
Net Income	\$ 20,503	22,821	18,019	26,373	31,156	21,500	22,493
Net Income Per Share	\$ 2.32	2.58	2.04	2.99	3.55	2.47	2.59
Cash Dividends	\$ 11,927	11,927	11,927	11,485	11,403	10,658	8,684
Dividends Per Share	\$ 1.35	1.35	1.35	1.30	1.30	1.225	1.00

BALANCE SHEET

Working Capital	\$ 47,483	49,392	46,680	74,102	74,141	63,663	56,370
Property, Plant, and Equipment	53,424	52,274	45,783	38,775	36,942	39,982	42,669
Other Assets	246,375	227,221	217,606	192,972	179,189	167,494	165,317
Long-Term Debt	(48,503)	(39,044)	(31,840)	(30,813)	(30,860)	(34,591)	(41,583)
Total	\$298,779	289,843	278,229	275,036	259,412	236,548	222,773
Less Reserves	15,616	15,256	14,537	17,437	16,701	15,671	14,086
Total Stockholders' Equity . .	\$283,163	274,587	263,692	257,599	242,711	220,877	208,687
Shares Outstanding	8,835	8,835	8,835	8,835	8,835	8,747	8,688
Book Value Per Share	\$ 32.05	31.08	29.85	29.16	27.47	25.25	24.02

The above summary has been restated to reflect various accounting changes.

Transfer Agents:

National City Bank, Cleveland, Ohio
Bankers Trust Company, New York, New York

Registrars:

Union Commerce Bank, Cleveland, Ohio
The Chase Manhattan Bank, New York, New York

The Hanna Mining Company

Is An Equal Opportunity Employer M/F

The Hanna Mining Company Form 10-K for the year 1974 will be available to stockholders upon written request to J. S. Pyke, Jr., Secretary

The Hanna Mining Company's common stock is traded on the New York and Pacific Coast stock exchanges. The ticker symbol is HNM. The quarterly high and low sales prices for the shares traded on the NYSE for the past two years, and the dividends paid per share, are:

	Sales Price of Common Shares				Dividends Per Share	
	1974		1973		1974	1973
	High	Low	High	Low		
First	54¼	32¾	60¼	51¼	\$.3375	\$.3375
Second	33¾	24	53½	39¾	.3375	.3375
Third	27¾	19¾	56¼	45½	.3375	.3375
Fourth	33	19	59	48	.3375	.3375

The Hanna Mining Company and Consolidated Subsidiaries

The Hanna Mining Company is one of the world's largest independent producers of iron ore. It operates four iron pellet projects in the United States — one wholly-owned, one jointly owned, and two in which it has minority interests. It operates one natural ore mine in Minnesota. It is the largest stockholder of Iron Ore Company of Canada and serves as manager of the company. Through St. John d'el Rey Mining Company, Hanna has an indirect one-third interest in a Brazilian iron ore company which in 1973 began operating a major new project.

Hanna produces primary nickel, ferrosilicon, and silicon metal at wholly-owned facilities in the United States. It has interests in oil and gas production and in an integrated aluminum producer in Brazil.

It operates bulk cargo vessels on the Great Lakes and

	1974	1973	1972	1971	1970
Net Sales and Operating Revenues:					
Iron Ore	67%	67%	70%	76%	74%
Ferronickel	15	19	20	15	16
Transportation	13	12	9	8	9
Other	5	2	1	1	1
Total	100%	100%	100%	100%	100%

in the St. Lawrence Seaway, an ocean shipping chartering agency, and coal and ore docks owned by others.

The company conducts geological exploration and metallurgical research, most of which in recent years has been focused on non-ferrous minerals.

Its investments include minority holdings in National Steel Corporation, two Canadian concession companies, and a Brazilian petrochemicals holding company.

The following tables, which include Hanna's equity portion of earnings and losses of Iron Ore Company of Canada, St. John d'el Rey Mining Company, and other associated companies, indicate the approximate percentage contribution to Hanna's total net sales and operating revenues, and to its income before income taxes, by each of its lines of business for each of the last five years:

	1974	1973	1972	1971	1970
Income Before Income Taxes:					
Iron Ore	26%	54%	58%	69%	54%
Ferronickel	47	49	61	43	40
Transportation	17	7	3	2	5
Silicon Products	13				
Other Products	8	4	2		
Investments	16	16	14	13	12
Unallocated Exploration, Administrative, and Other	(27)	(30)	(38)	(27)	(11)
Total	100%	100%	100%	100%	100%

Management's Discussion and Analysis of Summary of Operations

1974 Compared to 1973

Net sales and operating revenues increased 33% from 1973. Iron ore accounted for 22% from increased prices and shipments; silicon and ferrosilicon, an operation acquired in 1974, 4%; and transportation 5% from increased volume of business.

Cost of goods sold and operating expenses increased 25% from 1973. Iron ore accounted for 19% from rising costs and increased shipments; silicon and ferrosilicon 2%; and transportation 4%.

Interest on long-term debt increased 48%, mainly because of the Swiss bank loans.

Income taxes increased 123% on a before tax increase of 108% resulting from an increase in income with higher effective tax rates.

Income (loss) of companies carried at equity showed a substantial decline because of the losses of Iron Ore Company of Canada and St. John d'el Rey Mining Company.

1973 Compared to 1972

Net sales and operating revenues increased 16% from 1972. Iron ore accounted for 8% from increased shipments; transportation 5% from increased volume; and nickel 3% from increased costs and shipments.

Cost of goods sold and operating expenses increased 16% from 1972. Iron ore accounted for 8% from increased shipments; transportation 5% from increased volume; and nickel 3% from increased costs and shipments.

Depreciation increased 27% from 1972. Iron ore properties accounted for 13% largely due to accelerated depreciation because of a decrease in the estimated ore reserve at one property, and oil properties which became operational during the year accounted for 8%.

Income taxes increased 41% of which 21% resulted from a credit in 1972 for federal income taxes provided in prior years. The remaining increase of 20%, on a before tax increase of 15%, resulted from an increase in income with higher effective tax rates.

Income (loss) of companies carried at equity increased 104% resulting from Iron Ore Company of Canada and related companies, whose 1972 earnings were reduced by a three-month strike.

Hanna Mining Properties, Affiliates and Operations

Iron Ore/United States

Wholly Owned

Groveland Mine

Open pit mine, concentrator and pellet plant;
Michigan

Partially Owned

Butler Taconite Project (37.5%)

Open pit mine, concentrator and pellet plant;
Minnesota

Hanna Ore Mining Company (15%)

Whitney Mine; Minnesota

National Steel Pellet Company (15%)

Open pit mine, concentrator and pellet plant;
Minnesota

Pilot Knob Pellet Company (50%)

Underground mine, concentrator and pellet plant;
Missouri

Ore Sales Division

Cleveland, Ohio

Iron Ore/Canada

Partially Owned

Iron Ore Company of Canada (27.14%)

Open pit mines at Schefferville, open pit mines,
concentrator and pellet plant at Labrador City,
Quebec North Shore & Labrador railroad,
concentrator and pellet plant and loading terminal
at Sept-Iles; Quebec and Labrador

Hollinger North Shore Exploration Co., Limited (40%)

Quebec concessions

Labrador Mining and Exploration Co., Limited (22.3%)

Labrador concessions

Managing Agents

National Steel Corporation of Canada, Limited

Open pit mine, concentrator and pellet plant;
Ontario

Ore Sales Agent

London, England

Non-Ferrous Operations

Wholly Owned

Ferronickel

Open pit mine and smelter; Oregon

Silicon and Ferrosilicon

Smelter; Washington

Overseas Operations

Partially Owned Iron Ore

St. John d'el Rey Mining Company, Limited (66.3%)

49% ownership of Mineracoes Brasileiras Reunidas
S.A.—MBR; open pit mines and properties, crushing
and screening facilities and vessel loading terminal;
Brazil

Partially Owned Aluminum

Companhia Mineira de Alumínio (Alcominas) (30%)

Open pit bauxite mine, alumina refining plant and
aluminum smelter; Brazil

Partially Owned Nickel

Exploraciones y Explotaciones Mineras Izabel, S.A. (Exmibal) (20%)

Open pit mine and smelter under construction;
Guatemala

Partially Owned Petrochemicals

Uniao de Industrias Petroquimicas S.A. (Unipar) (15%)

Holding company with varying interests in seven
petrochemical plants; Brazil

Marine Operations

Domestic

Operators of Ore Unloading and Coal Loading Docks

Cleveland, Ashtabula and Sandusky, Ohio, and
Philadelphia, Pennsylvania

One Partially Owned

(33-1/3%) Lake Vessel

Operators of Lake Vessels Owned by

National Steel Corporation

Seaway

Partial Ownership in Four Vessels Operating in
St. Lawrence Seaway

Ocean

Two Wholly Owned Bulk Cargo Vessels

Chartering and Shipping Agency

Greenwich, Connecticut

The Hanna Mining Company 1974